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MINUTES
ECONOMIC POLICY COUNCIL

June 3, 1985
10:00 a.m.
Roosevelt Room

Attendees: Messrs. Baker, Block, Baldrige, Brock, Hodel, Sprinkel, Dam, Boggs, Smith, Kingon, Porter, Mulford, Daniels, Driggs, Poindexter, Khedouri, and Robinson, Ms. Risque and Ms. Dougan.

1. Natural Resources Subsidy Legislation

Ambassador Smith outlined the principal provisions of the natural resources subsidy legislation introduced by Representative Gibbons which would amend our countervailing duty law to apply duties to the pricing practices of certain foreign governments for natural resource inputs such as oil, natural gas, and timber. Many nations maintain dual pricing systems for oil and natural gas. They export oil and gas at the world market price, but sell the inputs at home at lower prices to domestic users.

Ambassador Smith noted that this is an extremely complex problem and that the Administration has consistently opposed these provisions when they were introduced in the Congress in previous years.

Administration opposition has rested on several reasons: that the bill treats "generally available" natural resource subsidies as countervailable and therefore violates the internationally accepted (GATT) definition of a countervailable domestic subsidy; that accordingly it would invite foreign retaliation; that the U.S. government currently engages in similar type activity through regulating the price of some natural gas, and providing other subsidies through government electricity projects, timber rights, etc.; that imposing countervailing duties on products developed through U.S. investments abroad raises questions about the fairness and consistency of our investment policy; that it cuts against comparative advantage by denying foreign firms the ability to exploit their supplies of inexpensive natural resources; and that the legislation intrudes on the sovereignty of foreign nations.

The Council discussion focused on the differences in the legislative prospects for the bill between this year and last year, the effect adding a lumber amendment has had in generating additional co-sponsors and support, the global problem of such subsidies, the congressional perception of U.S. trade policy, and the validity of a national security argument to halt the flow of refined oil imports.

The Council also considered the extent to which the United States is vulnerable to engaging in the same kinds of practices the legislation is designed to counter by other governments, the need for any action to include the cooperation and participation of other GATT nations, and the likelihood that producing an agreement would require extensive international negotiations.

Decisions

The Council agreed that the Administration would continue to oppose the natural resources subsidy bill in its present form. Ambassador Smith will meet with Chairman Gibbons to communicate the Administration's view that the bill is unacceptable in its present form but that we would be willing to work with the House Ways and Means Committee to seek a solution that would be consistent with our GATT obligations.

Ambassador Smith in his meetings and testimony will also emphasize the importance of addressing this issue through consultations with other GATT countries. Council members will also seek to inform groups affected by this legislation of the consequences should it be enacted in its present form.

2. Telecommunications Trade Legislation

Ambassador Smith indicated that we are in a somewhat similar position with respect to the telecommunications trade legislation. A key question is whether we want or need sector specific negotiating authority. A second key question is whether we should accept limitations on the President's discretion with respect to when and how to retaliate.

He explained that the United States does not have genuine access to the telecommunications markets in many other countries. This is in part due to the procurement practices in many countries which tend to favor domestically owned and controlled corporations.

The Council's discussion focused on the insistence of many members of Congress on limiting the President's discretion in carrying out the provisions of the act, the constitutionality of such provisions, the need for new negotiating authority, and the appropriateness of using limited Section 301 action if necessary.

The Council also discussed the breadth and depth of support for the legislation among industry groups, the effect on overall trade policy of pursuing sectoral reciprocity in individual sectors, the likelihood that the legislation would lead to more open or more closed markets, the precedent this legislation would establish for other industries, the need for an overall trade streagy, and the definition of SECO in the legislation.

The Council agreed to continue its consideration of this legislation at a future meeting.